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November 17, 2008

AGENDA ITEM 5

TO: MEMBERS OF THE BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

- I. SUBJECT:** Alternate Retirement Program
- II. PROGRAM:** Member and Benefit Services Branch
- III. RECOMMENDATION:** Information Only
- IV. ANALYSIS:**

The purpose of this agenda item is to provide the members of the committee with current information on the Alternate Retirement Program (ARP). This item provides a background of the program, recent statistical data regarding elections, and the development of a new ARP Survey.

Background

Senate Bill 1105 established the ARP for state miscellaneous and industrial employees effective August 11, 2004. The law created a retirement savings program, in lieu of retirement service credit and contributions under CalPERS. Withheld contributions (typically 5% of earnings in excess of \$513) are deposited monthly into a 401(a) account administered by the Department of Personnel Administration (DPA) Savings Plus Program (SPP).

Employees hired and who first become members of CalPERS on or after August 11, 2004 are placed in the ARP for a 24-month period following their date of hire. While the ARP participant does not receive CalPERS service credit for the calculation of retirement benefits during the 24-month period, CalPERS treats ARP service as state service for retirement, pre-retirement death, dental, and health vesting purposes. The ARP participant is considered a CalPERS member and eligible to receive certain "member" benefits such as health and dental insurance.

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Effective the first day of the 25th month following his/her employment date, the ARP participant begins contributing to CalPERS as a State First Tier member, and begins earning service credit prospectively. Beginning on their 47th month of employment and extending through the last day of their 49th month, these members have the opportunity to make an election regarding their ARP funds on deposit with DPA. The member has three options:

- Option 1: Transfer the entire balance of their ARP 401(a) account to CalPERS and receive service credit for their state service worked as an ARP member;
- Option 2: Request a lump sum distribution of the entire balance of their ARP 401(a) account;
- Option 3: Rollover their ARP funds to a Savings Plus 401(k) account with DPA.

The member has a three-month election period (months 47 - 49 of employment) to select one of the three options. If the member does not make a selection during the election period, their funds will either be transferred by default to a Savings Plus 401(k) account with DPA (Option #3), or, if they are no longer working for the state and do not have a Savings Plus 401(k) account with existing assets, their funds will remain in the 401(a) ARP account and the member will be charged a small administration fee.

Members currently receive several mailings from CalPERS and DPA, to ensure that they are informed of their election period and their various options. DPA sends each member a postcard during their 45th month of employment, alerting them of their election period. CalPERS follows this on the 46th month with a letter to each member which explains the three options in detail and also provides a copy of the CalPERS ARP Publication #10. At month 47, DPA sends the member a Payout Selection kit and the election form. After selecting their option, members then mail their completed forms to the CalPERS Member Services Division, who images the documents and then forwards them on to DPA and DPA's third party administrator, Nationwide Retirement Solutions.

Statistical Data

The Member Services Division has implemented a process for collecting statistical data by groups, according to election period dates. For example, Group 1 includes those members whose three-month election period began

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July 1, 2008 and ended September 30, 2008; Group 2 includes those whose election period began August 1, 2008 and ended October 31, 2008, and so on. We recently compiled the data for the first two groups. Group 1 consists of 143 eligible ARP participants and Group 2 consists of 323 eligible ARP participants.

The initial statistics indicate that approximately 48% of the members in Groups 1 and 2 submitted their ARP election forms during their election period. By default, the ARP funds for those members who did not submit forms, remain in a Savings Plus account with DPA. However, the statistics also show that the majority of the members who did make an election, opted to transfer their funds to CalPERS and receive the corresponding service credit (Option #1). As shown in the table below, 78% of the members in Groups 1 and 2 who made an election, chose Option #1. Only 19% of those who made an election chose to receive a distribution (Option #2), while 3% opted to leave their funds in DPA's SPP.

The table below shows the percentage breakdowns based on those who actually responded:

<u>OPTION</u>	<u>GROUP 1</u> (74 Respondents)	<u>GROUP 2</u> (166 Respondents)	<u>GROUPS 1 & 2</u> (240 Respondents)
Option 1	87%	74%	78%
Option 2	12%	22%	19%
Option 3	1%	4%	3%
Total	100%	100%	100%

Attachments A – C show the percentage distribution of elections, as well as the numbers of elections received, by age group.

New Survey

We are currently developing an ARP Survey that will be sent to all eligible ARP participants after their three-month election period has ended, regardless of whether they have made an election or defaulted. The survey will be designed to solicit specific information that will help us understand why a member chose a particular option, and will provide us with valuable information that may help us in improving communications with ARP members regarding this important decision.

V. STRATEGIC PLAN:

This program is consistent with the following Strategic Goals:

- VI. Administer pension benefit services in a customer service-oriented and cost-effective manner.
- VII. Enable and educate members and employers to make informed decisions leading to a predictable and secure retirement future.

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